

Financial Management Policies

Operating Budget Policies:

1. The City will strive to adopt an annual General Fund budget in which total expenditures do not exceed total projected revenues.

2. The City's goal for Enterprise funds is to establish rates that provide for self-sufficiency.

3. The Operating Budget which includes the General Fund and the Enterprise funds shall be balanced in total (total expenditures equal total revenues). The Water and Sewer funds will balance each other with any excess held as a contingency. The General Fund and all other Enterprise funds shall balance in total (total expenditures equal total revenues) with any excess being held as a contingency in the individual fund, where applicable.

4. The Operating Budget is adopted at the fund level. Each department and division prepares its own budget for review by the Mayor. Current policy requires departments to request separate enhancements for any amounts increasing total department budgets. Realignment of appropriations without an overall increase is allowed unless it involves eliminating an established program, which would require the Mayor's approval. The budget is approved in the form of an appropriations ordinance after the Council has held advertised public hearings. During the year, it is the responsibility of the Mayor to administer the budget. The legal control which the budget ordinance establishes over spending is set up under Generally Accepted Accounting Principles (GAAP). The Mayor has the authority to transfer budgeted amounts within departments in any fund, but changes in the total appropriations level for any given fund can only be enacted by the Mayor and Council.

5. Budgetary control is maintained in the General, Special Revenue, and Enterprise Funds at the fund level within department by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in overruns of balances are not processed until sufficient appropriations are made available through approved intrafund transfers.

6. A financial system will be maintained, on an ongoing basis, to monitor expenditures and revenues.

Capital Expenditure Program Policies:

1. The development of the capital improvement program will be coordinated with the development of

the operating budget. This document provides for improvements to the City's public facilities for the ensuing fiscal year and five years thereafter. The first year of the plan establishes a capital budget for the new fiscal year. The remaining five years serve as a guide for use in determining probable future debt issuance needs and operating cost impacts.

2. *The Capital Budget is adopted at the project level.* Capital improvement expenditures are accounted for in the Capital Projects Fund and are funded by a variety of sources.

Debt Issuance Policies:

1. The City will not use long-term borrowing to finance current operations or normal maintenance.

2. Capital projects financed through the issuance of bonds and capital lease purchases shall not be financed for longer than the expected useful life of the improvements.

3. The City will not issue tax or revenue anticipation notes to fund governmental operations.

4. The City will not issue bond anticipation notes (BANs) for a period of longer than two years. If the City issues a BAN for a capital project, the BAN will be connected to a long-term bond or redeemed at its expiration, but will not be rolled over.

5. The City will strive to increase its reliance on current revenue to finance its capital improvements. The City is committed to funding a significant portion of capital improvements on a "pay-as-you-go" (PAYGO) basis. Therefore, the City will strive to increase each year the percentage of its capital improvements financed by current revenues.

6. The City will pursue a policy of designating excess General Fund balance over the target ratio amount of fifteen percent for the purpose of providing PAYGO funding for the Capital Improvement Program.

7. The City will not establish a trend of using General Fund equity to finance current operations. The City's General Fund equity balance has been built over the years to provide the City with sufficient working capital and enable it to finance unforeseen emergencies without borrowing. To conserve the General Fund equity balance and to avoid reliance on this balance, the City will not finance operations from the General Fund equity balance for periods longer than two years. If the audited financial statements confirm that, in the General Fund, the

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total of revenues and other financing sources is less than expenditures and other financing uses, and if the mid-year review for the current year indicated that, in the General Fund, the total of revenues and other financing sources is projected to be less than expenditures and other financing uses by year end, then the City will adopt, for the next ensuing year, a balanced budget in which the revenues exceed the expenditures without any consideration of the General Fund equity balance.

8. The City Code requires that the Water and Sewer Enterprise Funds debt service will be self-supporting. A formal rate study will be done every ten years to insure that the rates and fees will be sufficient to cover the debt service requirements as well as the operating costs. Additionally, rates and charges will be reviewed annually during the budget process to ensure ongoing compliance between formal rate studies.

9. The City will strive to not issue new bonds more frequently than once every two fiscal years.

10. As of the effective date of adoption of these policy guidelines, the City of Annapolis has no outstanding variable rate indebtedness, nor has it entered into any municipal derivatives contracts (ie; interest rate swap agreements). Prior to undertaking the issuance of variable rate debt or committing itself to any derivatives contracts, the City shall develop, in consultation with its Financial Advisor, appropriate policies and procedures to safeguard the financial interest of the City.

Debt Ratio Policies:

There are several key debt ratios that investors and financial analysts use when reviewing a city's credit-worthiness. As part of its policy, the City of Annapolis has established an act of target and ceiling numbers which reflect the type of ratios used by the national credit rating agencies. The ceiling/floor number is, as appropriate, the absolute minimum or maximum ratio that the City administration will permit. The target number is the ratio the City intends to achieve through a prudent program of debt management.

A listing of the City's key debt ratios follows:

1. Debt as a Percentage of Assessed Value

The City will maintain its net bonded debt at a level not to exceed a ceiling of three percent of

the assessed valuation of taxable property within the City, with a target ratio of two percent. This ratio indicates the relationship between the City's debt and taxable value of property in the City. It is an important indicator of the City's ability to repay debt, because property taxes are the primary source of City revenues used to repay debt. A smaller ratio is an indication that the City will be better able to withstand possible future economic downturns and continue to meet its debt obligations.

2. Debt Service as a Percentage of General Government Expenditures

The City will maintain its annual net bonded debt service costs at a ceiling of ten percent of the General Fund expenditures, with a target ratio of eight percent. (Net bonded debt service costs are the costs for debt to be paid out of general public revenues, as opposed to Water and Sewer Enterprise Fund revenues.) This ratio is a measure of the City's ability to repay debt without hampering other City services. A smaller ratio indicates a lesser burden on the City's operating budget.

3. Debt Payout Ratio

The City will maintain a ten-year payout ratio (ie; rate of principal amortization) for its net bonded debt of not less than 65%. This ratio is a measure of how quickly the City retires its outstanding indebtedness. A higher payout ratio preserves the City's capacity to borrow for future capital needs.

Financial Administration Policies:

1. Unreserved General Fund Balance as a Percentage of General Fund Revenue

The City will maintain an unreserved General Fund balance at a level not less than a low of ten percent and a target of fifteen percent.

2. Quarterly Budget Monitoring and Reporting

The City Finance Director shall prepare a quarterly report and analysis regarding actual revenues and expenditures for the fiscal year, which shall include comparisons to the estimates contained in the adopted budget and to similar points in time for the prior fiscal year(s). The report shall include any

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recommendations for budget amendments that may be required. The quarterly report shall be reviewed promptly by the Finance Committee and shall be provided to the full City Council at the next scheduled meeting.

3. The City shall prepare and annually update a multi-year comprehensive financial plan, which is to be submitted and reviewed during the annual budget process. The plan will integrate the operating and capital budgets, such that, the incremental operating costs associated with new capital projects may be incorporated into the operating budget. The multi-year plan does not intend to supersede the annual budget adopted by the City Council. The purpose of the multi-year plan is to provide near-to-medium term perspective on how current year budget decisions might effect the City's financial health in future years.

Cash Management/Investment Policies:

1. The City maintains an investment pool that is available to all funds except the Pension Trust Fund and the Internal Services Fund, which hold investments separate from other City funds and control their own cash transactions.

2. Except for investments in the Pension Trust Fund, the City is authorized to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, repurchase agreements, certificates of deposit, and the state's local government investment pool. Contractually, the City's Pension Trust investment managers are restricted to investments in common stock, public bonds, real estate and money market investment funds.

Accounting, Auditing, and Financial Reporting Policies:

1. The basis of accounting within governmental fund types used by the City of Annapolis is modified accrual as well as the "current resource measurement focus." Under this method of accounting, revenue is recorded when susceptible to accrual, i.e., when measurable and available for the funding of current appropriations. All enterprise funds and the Pension Trust Fund follow the accrual basis of accounting, as well as the capital maintenance measurement focus. Revenues are recognized when earned, as billed and unbilled, and expenditures are recorded when incurred.

2. The City places continued emphasis on maintenance of an accounting system which provides strong internal budgetary and accounting controls designed to provide reasonable, but not absolute, assurance regarding both the safeguarding of assets against loss from unauthorized use of disposition and the reliability of financial records for preparing financial statements and reports, such as the budget and the Comprehensive Annual Financial Report (CAFR), as well as maintenance of accountability of assets.

3. An independent audit of the City of Annapolis is performed annually.

4. The City of Annapolis issues a Comprehensive Annual Financial Report (CAFR) in accordance with Generally Accepted Accounting Principles (GAAP) outlined by the Governmental Accounting Standards Board (GASB).

The City's most recent bond ratings, received in connection with general obligations issued in 2009, are "Aa2" issued by Moody's Investor Services, a Standard and Poor's rating of "AA" and a Fitch rating of "AA+"; all three are considered outstanding ratings.

Major City Goals

Annapolis is proud of its historic charm, its status as a major tourist and maritime attraction, and its desirable residential neighborhoods. Several years ago, as the City underwent its budget preparation process, attention was given, in the form of a strategic planning session, to the development of the City's mission, vision, goals and objectives. Elected officials, department heads, and key personnel joined forces to formulate and set forth statements of vision and mission for the City.

The current City Council has not adopted, nor developed, any formal goals, objectives or priorities for FY 2010, nor does it have a formal vision or mission statement. Until it does, the mission and vision identified by the prior Council represents the City's goals and objectives.

Vision Statement

Annapolis is a city in which essential services are delivered in the most cost effective, efficient and responsive manner. It is a multi-cultural city in which the diversity of citizens is celebrated; where the past is recognized, the present acknowledged, and future under control. The City provides a safe and secure environment that is healthful, attractive and a satisfying place in which to work, visit and play; where all citizens are treated fairly by all agencies of the City government that promotes open access to government and encourages civic participation. It is a viable business community and its City government operates as a team, with respect for each other and all its citizens.

Mission Statement

The mission of Annapolis is to provide and maintain adequate public facilities and services to support the residential and business communities, and enhance environmental quality, public health, security, and safety in a cost efficient and effective manner that recognizes the restrictions of dwindling resources balanced against citizen demands. It formulates City policies, organizational goals and administrative objectives for the entire community.

To achieve the City's mission, broad goals and objectives must be established. The first step taken in the strategic planning session towards developing formal goals and objectives was the identification of the stakeholders that Annapolis serves who must be considered in establishing these goals. Eleven categories of stakeholders, and their needs, desires and expectations of their city government were identified; they are listed below and are the foundation of the City's broad goals and objectives soon to be formally established.

Stakeholders Served by Annapolis:

1. Citizens: Efficient and effective municipal services: specifically, good leadership and cooperation from elected officials; safe, secure and healthful housing; the best emergency medical services available; good schools; lower taxes and better employment opportunity; maintenance of the diversity of citizens and cultural activities; and confidence in the future.
2. Businesses: Consistent leadership from the Mayor; fair and equitable treatment by City officials; outreach to and respect of business owners; efficient, predictable and responsive government; confidence in the viability and stability of City government; good markets; consistent zoning; and diversity of business.
3. Tourists: Efficient shuttle system that will help reduce automobile traffic downtown, yet still make tourists feel welcome; better access to the City; better signs in general and bigger signs for parking;

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more diverse cultural activities; and an improved atmosphere for the boating and maritime community.

4. County: A consistent formula for the calculation of the Tax Differential; a Wastewater Treatment Plant agreement; joint development strategy; elimination of overlapping recreational programs; more interaction between City and County council members; a regional solution to solid waste issues; better cooperation and efforts to receive a bigger share of federal and state revenues that enter at the county level.

5. Other Government Agencies: Fair distribution of taxes and revenues; coordination of policies and procedures and cooperation for the benefit of all citizens; open communication and joint planning of growth and expansion; improved relationships and continued cooperation with the Naval Academy concerning the Fourth of July fireworks; continued independence.

6. City Employees: A sense of direction and consistent leadership; improved communication between administration and staff; consistent interpretation of personnel rules and regulations; respect and fair and equitable treatment of all employees; more training and education coupled with improved chances for advancement; a sense of pride and security in belonging to a respected organization and the accompanying increased

motivation and initiative.

7. Special Interest Groups: Access to information; the opportunity to present their views to the City government, knowing that they will be treated fairly and equitably; City policies effectively communicated to the special interest groups; open meetings, more public hearings; and the lowest possible taxes.

8. State: Keep state agency offices in Annapolis; ensure that the State recognizes and pays for services provided by the City; more emphasis on the fact that Annapolis is Maryland's State Capital; responsible managed community and economic growth; attraction of new business; and continued maintenance of tourism.

9. Non-profit Organizations: Recognition by the City of the benefits brought to Annapolis by the presence of non-profit organizations.

10. Historic District: Responsible protection and maintenance of the City's heart; recognized importance as a tourist attraction; and less conditional use controversies.

11. Taxpayers: Cost efficient services; fair return on invested funds; better communication with City elected officials and administration; continued diversity of City residents and businesses.